

LEGISLATIVE AUDIT COMMISSION



Review of
Northeastern Illinois University
Year Ended June 30, 1998

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**REVIEW: 4098
NORTHEASTERN ILLINOIS UNIVERSITY
YEAR ENDED JUNE 30, 1998**

FINDINGS/RECOMMENDATIONS - 6

**ACCEPTED - 3
IMPLEMENTED - 3**

REPEATED RECOMMENDATIONS - 3

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 4

This review summarizes the audit of Northeastern Illinois University for the year ended June 30, 1998, filed with the Legislative Audit Commission May 20, 1999. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements were fairly presented except for the effects of such adjustments, if any, as might have been determined to be necessary had they been able to examine evidence regarding year 2000 disclosures.

Northeastern Illinois University's primary mission is "to serve the people of the State of Illinois by providing quality higher education at the bachelor's and master's level in the liberal arts, professional education and such other areas as would enhance the State's delivery of post secondary instruction to the citizens of the Chicago areas." Related to the University's mission is its commitment to the metropolitan area surrounding it. The University's location on the near northwest side of Chicago enables it to become an integral part of the community.

Dr. Salme Steinberg is the current President of the University. Dr. Steinberg became President in February 1996, and prior to that time served as Acting President of the University.

General Information

Following is a summary of gross assets of the University:

	At June 30	
	FY98	FY97
Current Funds-		
Unrestricted	\$ 12,098,274	\$ 9,500,941
Restricted	954,453	1,183,602
Student Loan Funds	2,023,767	1,838,096
Plant Funds-Investment in Plant	120,400,928	107,198,115
Agency Funds	71,767	54,424

REVIEW: 4098

Total	\$ 135,549,189	\$ 119,775,178
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The average number of employees at the University during FY98, FY97 and FY96 was as follows:

	FY98	FY97	FY96
Administration	193	202	203
Faculty	344	328	330
Civil Service	454	444	455
Students	431	420	442
TOTAL	1,422	1,394	1,430

Enrollments of both undergraduate and graduate students for each term (including extension centers and part-time students) for FY98, FY97, and FY96 were as follows:

	FY98	FY97	FY96
Fall	10,244	10,035	10,386
Spring	9,986	9,573	9,723
Summer	5,325	5,561	5,969

Using the above enrollment data, in FY98 the University had an average full-time equivalent enrollment of 7,098 students, comprised of 5,657 undergraduates, and 1,441 graduate students. This compares to a total full-time equivalent enrollment of 6,916 in FY97.

The University's cost per full-time equivalent undergraduate student was \$6,366 in FY98, which compares to \$6,223 in FY97, and \$5,943 in FY96. The cost per full-time equivalent graduate student was \$7,258 in FY98, which compares to \$7,116 in FY97 and to \$7,687 in FY96.

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of \$36,561,200 to Northeastern Illinois University in FY98: \$32,422,600 from the General Revenue Fund; \$3,601,500 from the Education Assistance Fund; and \$537,100 from the Capital Development Fund. Total expenditures from the three funds were \$36,070,718 in FY98, compared to \$34,391,354 in FY97, which is an increase of \$1,673,364 or 4.8%. Effective for FY97, the Income Fund was no longer an appropriated fund, thus Income Fund receipts previously retained with the State were transferred to the University. In FY98, NEIU received \$17,601,110 from the Income Fund. Expenditures from the Fund totaled \$15,453,066. However, the Income Fund showed a negative balance of more than \$8.5 million.

Accrued Vacation and Sick Pay

As of June 30, 1998, Northeastern Illinois University had a liability of \$2,810,830 for accrued vacation pay and a liability of \$10,361,164 for accrued sick pay, for a total liability of \$13,191,994. The liability for accrued vacation pay increased \$602,570, or 4.7% in FY98 compared to FY97.

Current Income and Expenditures

The table appearing in Appendix B presents a summary of current income and expenditures for the years ended June 30, 1998 and 1997. Revenues stood at \$78,565,105 as of June 30, 1998. The following chart indicates the source of revenues during FY98:

Revenues	FY98
State Appropriations	56.2%
Student Tuition & Fees	25.1
Grants (Federal)	13.8
Other	4.9

Expenditures and mandatory transfers during FY98 totaled \$76,153,497, with the fund balance increasing from \$(286,047) in FY97 to \$2,440,655 in FY98. According to the audit report, the increase in instructional expenditures is primarily due to a 3% pay increase to most employees. The large decrease in research expenditures is due to two large grant projects, which occurred in FY97, and were not continued in FY98. Expenditures during FY98 were as follows:

Expenditures	FY98
Instruction	33.2%
Public Service	7.2
Student Services	9.0
Institutional Support	23.8
Plant	8.9
Scholarships	8.1
Academic Support	6.7
Other	3.1

Accounts Receivable

Appendix C summarizes the University's accounts receivable for FY98 and FY97. Accounts receivable (excluding receivables for student loans) totaled \$2,333,080 with an allowance for doubtful accounts of \$1,106,185. Total accounts receivables (net) totaled \$2,639,165 as of one year earlier. Thus, accounts receivable decreased by \$306,085, or 11.5% in FY98, compared to FY97. According to the audit report, the allowance for doubtful accounts results primarily from nonpayment of student tuition and nonpayment of parking fines. About 17%, or \$599,190, of accounts receivable was more than one year old.

Property and Equipment

Appendix D summarizes the changes in property and equipment. The ending balance in FY98 was \$13,730,948 more than the beginning balance in FY98. During FY98, several construction projects, including remodeling of the library, the construction of a fine arts building, and improvements in the area of fire safety, were in progress by the Capital Development Board on behalf of the University.

Funds Provided by and to the Foundation

Appendix E provides a summary of funds provided by and to the Foundation. During FY98, certain personal services and facilities of the University, with the estimated value of \$24,708, were provided to the Foundation without charge. In turn, the Foundation gave the University approximately \$127,937 in funds, considered unrestricted for purposes of the University Guidelines computations. In addition, the Foundation gave the University non-qualifying restricted funds of approximately \$76,005 for scholarships, for a total of \$203,942. This compares to \$156,134, which the Foundation provided to the University one year earlier.

Tuition and Fee Waivers

During FY98, Northeastern Illinois University granted \$1,514,100 in tuition waivers, which compares to \$1,309,500 granted in FY97. In FY98, Northeastern Illinois University granted \$140,800 in waivers mandated by statute, and \$1,373,300 in waivers which are discretionary. The largest category of FY98 tuition waivers was for graduate students, merit based, totaling \$480,200. Appendix F provides a summary of the tuition waivers granted in FY98 and FY97.

Accountants' Findings and Recommendations

Condensed below are the six findings and recommendations presented in the audit report. There were three repeated recommendations. The following recommendations are classified on the basis of information provided by Dr. Salme H. Steinberg, President, Northeastern Illinois University, in a letter dated July 26, 1999.

Accepted

- 3. Assess the effectiveness of Year 2000 compliance focusing on a more comprehensive approach to assess all software applications and hardware components. Include mainframes, client-server platforms, local and wide area networks, telecommunications, physical security systems, facility and maintenance systems, and other items that utilize embedded chip technology. Determine which applications or components may be Year 2000 sensitive and assess the overall priority of those systems. Detail the resources needed and the system capacity required, as well as any contingency plans. Monitor the status of the project throughout the implementation and testing phases. (Repeated-1997)**

Findings: The University's current efforts to define and correct impending computer problems due to the impact of the Year 2000 are not fully adequate. Some progress has been made since the prior audit; however, Y2K compliance continue to be a prominent issue for the University, and a significant amount of effort must be expended to identify and correct problems. Systems relied upon to meet mandates and objectives could have serious problems.

- The University's building management systems is not Y2K compliant, and steps have not been identified, nor resources allocated, to ensure that campus structures and facilities will function in 2000;
- The University is still assessing Y2K compliance of desktop computers, networking equipment and file servers;
- The University has not determined the extent of Y2K compliance with external entities; and
- Contingency plans have not been developed for systems failures.

Response: The University began a systematic evaluation of its Y2K problem in May 1998 with the designation of a Y2K coordinator. Since then, the University has aggressively pursued the issue. In response to the identified problems, the University has accomplished, or will accomplish the following actions:

REVIEW: 4098

- Replace two-non-compliant business systems;

Accepted - continued

- Brought other business systems into compliance through upgrades;
- Brought the telephone system into compliance and verified that all computer networking components are Y2K compliant;
- Identified personal computer software that needs to be upgraded or replaced;
- Evaluated all University personal computers and tested and verified software enhancement for some and will replace others;
- Evaluated all computer systems and embedded systems that involve facilities management and plans to upgrade or replace as necessary; and
- Examined alternative for replacing non-compliant building management system and developed and tested a plan to adjust building management system if not replaced or upgraded.

5. Comply with SAMS procedures, complete accounting records, and submit GAAP reporting package timely, and implement procedures to report complete and accurate information on the Interfund Transfers – Grantee Agency Form (SCO-567).

Findings: The University submitted its GAAP reporting package on October 26, 1998 even though GAAP reporting packages are due September 30. Additionally, the University accepted a SCO-567 form from the Comptroller with inaccurate information.

Response: The University accepts the recommendation and will submit the GAAP reporting package by the due date in the future. The University will also compare the information on form SCO-567 to the University's records, notify the Comptroller of any inaccuracies and accurately complete the remainder of the form.

6. The University Board should develop goals for flexible-hour positions, file the reports as required, and evaluate the effectiveness of the program.

Findings: The University Board has not established goals for flexible-hour positions. University law required that the Board establish goals for flexible-hour positions and report on the progress of the goals to the Governor and General Assembly by May 1, 1997. Once the goal of 20% of the positions on campus is reached, the Board must evaluate the

REVIEW: 4098

effectiveness and efficiency of the program and determine whether to expand the number of positions available for flexible hours.

University officials state that the intent of the law had been complied with because a large number of positions include flexible hours.

Response: The University currently has more than 20% of its positions that meet the flexible hour definition in the Statute. The Board will review flexible hour positions at its September 1999 Board meeting.

Implemented

1. Take actions to ensure compliance with the University Facilities Revenue Bond Indenture requirements. (Repeated-1981)

Findings: The University is not complying with all requirements of the University Facilities Revenue Bond Indenture. For the past 15 years, the University has not complied with the account transfer requirements set forth in the University Facilities Revenue Bond Resolution. The Bond Resolution requires transfers into the Revenue Account to be made within three days of receipt. During FY97, the transfers were made every seven days. The underlying cause is that the University's processing for the applicable revenues is via a batch mode system which does not allow for faster transfer and posting. Additionally, the University feels that modifications to the current system would not be cost-effective and has decided to defer a corrective action plan pending the full implementation of a new real-time, on-line based administrative computer software system. Failure to comply with the indenture increases the risk that a bondholder could bring court action to compel compliance or may jeopardize future bond ratings.

Response: University staff has met all transfer deadlines as required by the bond resolution. In addition, procedures have been developed and implemented to ensure compliance with the bond resolutions.

2. Develop a planning framework that ensures all required components of computer system development projects are adequately addressed. (Repeated-1997)

Findings: The University did not adequately plan the selection and implementation of its new academic and administrative computer system. Although the project was originally targeted to be completed by November 1996, it is still incomplete. The University purchased a software package that did not meet its needs and required extensive modifications, and was paid for before it was delivered. Further, the University's software package did not adequately test its reliability before placing it into production. The University paid the vendor over \$804,170 for the new academic and administrative computer system. While some of the student modules functioned at acceptable levels, the vendor could not deliver the finance and purchasing modules in the negotiated time frame.

REVIEW: 4098

When the new system did not perform as expected, the University was left without a working financial package.

Implemented - concluded

The University abandoned the financial and purchasing software modules, and was receiving these services from another vendor at an estimated monthly cost of over \$10,000.

Response: A system implementation framework has been developed and used as a guide for two new systems (financial and payroll) which were implemented and put into operational mode on July 1, 1999.

4. Obtain sufficient collateral to meet the statutory requirements for deposits in excess of FDIC.

Findings: The University maintained deposits of \$612,331 in excess of FDIC and pledged collateral.

Response: The University has obtained and presented to the auditors the evidence of an increase in pledged collateral.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY98, Northeastern Illinois University did not file any affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Northeastern Illinois University indicated as of July 6, 1998, there were no employees assigned to locations other than that at which their official duties require them to spend the largest part of their working time.

REVIEW: 4098				
NORTHEASTERN ILLINOIS UNIVERSITY				
YEAR ENDED JUNE 30, 1998				
APPENDIX A				
<u>Summary of Appropriations and Expenditures</u>				
APPROPRIATIONS	FY98	FY97	FY96	
General Revenue Fund	\$ 32,422,600	\$ 30,935,400	\$ 29,806,400	
Education Assistance Fund	3,601,500	3,463,000	3,362,100	
Capital Development Fund	537,100	-	-	
TOTAL APPROPRIATIONS	\$ 36,561,200	\$ 34,398,400	\$ 33,168,500	
EXPENDITURES				
Personal services	\$ 32,222,587	\$ 25,574,787	\$ 24,059,202	
Contractual services	-	3,644,549	3,714,091	
Travel	-	69,297	79,634	
Commodities	-	285,271	353,296	
Equipment	-	726,329	667,527	
Awards, grants & matching funds	-	66,000	81,200	
Operate auto equipment	-	2,759	3,687	
Telecommunications	-	208,560	208,100	
Contributions to Social Security system	200,000	146,904	153,500	
Permanent improvements to campus facilities	-	203,898	484,400	
	32,422,587	30,928,354	29,804,637	
Education Assistance Fund	3,601,497	3,463,000	3,362,100	
Capital Development Fund	46,634	-	-	
TOTAL EXPENDITURES	\$ 36,070,718	\$ 34,391,354	\$ 33,166,737	
Note: Effective in FY97, the University Income Fund is no longer an appropriated fund.				
Beginning with FY98, vouchers must be submitted to the State Comptroller via magnetic media. Due to the FY97 failure in implementing its new academic and administrative computer system, the University did not have this capability, so the entire FY98 General Revenue Fund appropriation was included in the Personal Services and Contribution to Social Security lines. However, in FY99, the General Revenue Fund appropriation again includes all other non-personal services line items.				

REVIEW: 4098				
NORTHEASTERN ILLINOIS UNIVERSITY				
YEAR ENDED JUNE 30, 1998				
APPENDIX B				
<u>Current Funds</u>				
<u>Summary of Revenues, Expenditures and Other Changes</u>				
<u>Revenues</u>		FY98		FY97
State Appropriations		\$ 44,120,951		\$ 41,463,066
Student tuition & other fees		19,757,214		18,278,192
Grants (principally federal awards)		10,860,474		10,469,531
Parking revenue		685,409		639,417
Other sources		3,141,057		2,665,842
Total Revenues		78,565,105		73,516,048
<u>Expenditures & Mandatory Transfers</u>				
Educational & general:				
Instruction		25,083,470		23,954,644
Research		149,318		415,714
Public service		5,453,566		5,528,805
Academic support		5,121,207		4,977,117
Student services		6,827,545		6,462,496
Operation & maintenance of plant		6,733,400		7,271,000
Institutional support		17,983,774		17,107,680
Scholarships & fellowships		6,146,612		5,959,664
Total educational & general		73,498,892		71,677,120
Auxiliary enterprise expenditures		1,969,134		2,046,540
Total Expenditures		75,468,026		73,723,660
Less mandatory transfers		679,054		287,153
Less non-mandatory transfers		6,417		-
Total expenditures & transfers		76,153,497		74,010,813
Excess of transfers to revenues over restricted receipts		29,047		208,718
NET INCREASE (DECREASE) IN FUND BALANCE		\$ 2,440,655		\$ (286,047)

REVIEW: 4098				
NORTHEASTERN ILLINOIS UNIVERSITY				
YEAR ENDED JUNE 30, 1998				
APPENDIX C				
<u>Accounts Receivable</u>				
<u>Current Funds</u>		FY98		FY97
Unrestricted		\$ 2,484,812		\$ 2,306,802
Less Allowance for Doubtful Accounts		(1,106,185)		(851,239)
Subtotal		1,378,627		1,455,563
Restricted - Grants		954,453		1,183,602
TOTAL		\$ 2,333,080		\$ 2,639,165
<u>Aging Schedule</u>				
Current		\$ 2,840,075		\$ 2,904,610
1-2 Years		369,433		431,251
2-3 Years		65,573		49,617
Over 3 Years		164,184		104,926
Total		\$ 3,439,265		\$ 3,490,404

REVIEW: 4098					
NORTHEASTERN ILLINOIS UNIVERSITY					
YEAR ENDED JUNE 30, 1998					
APPENDIX D					
<u>Summary of Property and Equipment</u>					
			FY98		FY97
Beginning Balance			\$ 103,060,282		\$ 100,388,346
Add -	Buildings		12,264,042		2,621,272
	Equipment		2,693,715		2,868,063
	Improvements		302,252		1,022,901
Total additions			15,260,009		6,512,236
Deduct -	Buildings		591,278		2,767,441
	Equipment		937,783		1,072,859
Total deductions			1,529,061		3,840,300
Balance, June 30			\$ 116,791,230		\$ 103,060,282

REVIEW: 4098					
NORTHEASTERN ILLINOIS UNIVERSITY					
YEAR ENDED JUNE 30, 1998					
APPENDIX E					
<u>Summary of Funds Provided by and to the Foundation</u>					
			FY98		FY97
Funds provided by the University			\$ 24,708		\$ 23,871
Funds provided to the University					
Considered unrestricted for guidelines purposes			\$ 127,937		\$ 117,396
Considered restricted for guidelines purposes			76,005		38,738
Total funds provided to the University			\$ 203,942		\$ 156,134

REVIEW: 4098			
NORTHEASTERN ILLINOIS UNIVERSITY			
YEAR ENDED JUNE 30, 1998			
APPENDIX F			
Tuition and Fee Waivers			
		FY98	FY97
Mandated Waivers			
General Assembly scholarships		\$ 71,700	\$ 90,500
DCFS		400	3,600
Teacher education (special education)		35,500	51,800
Children of employees		17,700	11,400
ROTC		11,000	7,300
Senior citizens		4,500	2,200
Total Mandated Waivers		140,800	166,800
Discretionary Waivers			
Need based		50,900	31,500
Graduate assistants		212,700	169,700
Graduate merit		480,200	360,600
Graduate need based		34,300	39,900
Athletic		118,100	121,300
Academic/Other talent		204,900	188,500
Civil service staff		108,400	91,300
Faculty/administration		27,100	21,500
Cooperating teachers		39,500	-
Teacher education		-	37,600
Grant programs		90,900	79,000
Other		6,300	1,800
Total Discretionary Waivers		1,373,300	1,142,700
GRAND TOTAL		\$ 1,514,100	\$ 1,309,500